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REPORT ON
CALIFORNIA STATE EXPOSITION AND FAIR
JUNE 1973

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August 31, 1973

Honorable Mike Cullen
Chairman, Assembly Committee on
Efficiency and Cost Control
Room 440B, State Capitol
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Dear Mike:

Transmitted herewith is the report on the California State Exposition and Fair.

A primary justification for the Cal-Expo development was the projection of self-supporting operations; however, less than one-half of the costs are paid from operating revenues. These revenues are less than they were during the final operations at the old fair site.

Following are the principal problems and, hence, the opportunities to realize improvements.

- Permitting a high percentage of the visitors to be admitted free is not financially sound because the state realizes a low amount of revenue from interval fair operations.
- Major cost items are omitted in the accounting for horseracing with the result that the information concerning operations is misleading. In addition, the amounts paid to horsemen in purses and fees are excessive.

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- The primary cause of the decrease in revenue is the long-term lease contracts for exclusive amusement operations and the food and beverage concessions. In addition to causing a decrease in revenue, these contracts (1) restrict the opportunities of the state to improve operations, and (2) cause numerous administrative problems.
- The failure to specify obtainable objectives adversely affects both current operations and the resolution of the question of Cal-Expo development.
- The method of operation does not assist in resolving the question regarding the future of Cal-Expo.
- Lack of information regarding the fair visitors impedes both planning and the evaluation of operations.
- The evaluation of operations is impeded by the failure to relate all costs to the various major fair attractions.

With my warm best wishes,

Sincerely,



VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

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INTRODUCTION

The purpose of this review of the California State Exposition and Fair is to provide information regarding financial operations and effectiveness in achieving objectives. Objective evaluation of operations and results therefrom requires criteria or "yardsticks". The following comparisons have been utilized to identify problems:

- Stated objective with that accomplished
- Current operations with prior operations
- State Fair activities and results therefrom with the same for other fairs and private operations, and
- Planned and actual experience.

Prior to Cal-Expo construction, studies concluded that the expenses at the old site were excessive, the facilities were unsuited for expansion and the State Fair did not reflect the changes in the interest of the people or the economy of the State. In 1963, five major attractions were specified for the new facility. They were to promote the heritage, culture, industry, people and resources of the State. The facility would be financially self-supporting. Operation would be the responsibility of a non-profit corporation affording professional experience. The attractions specified were:

- Noncommercial year-around educational and cultural display area within the exposition center

- Commercial exhibition area with both open space and building shells
- Theme amusement park
- Activities complex with traditional fair exhibits, and
- A racetrack.

In 1967, the development and operational plans were modified as follows:

- Reduction of the attendance projections
- Adoption of pay-as-you-go basis for development, and
- Delegation of responsibility for installation of entertainment features to private concessionaires, with the resulting reduction in state capital outlay funds being used to expand the agricultural activities of the fair.

The California Exposition and Fair Executive Committee, which is composed of five state department heads and fourteen Governor's appointees with four legislative advisory members, terminated the contract with the nonprofit corporation in 1968 after the initial fair had been held at the new facility. After four years of direct control of operations by the Executive Committee, the Director of the Department of Parks and Recreation has been delegated the operational responsibility.

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REVENUES

The following table relates the revenues of a decade ago, fiscal year 1963-64; the last year of operations at the old fair site, 1967-68; and 1972-73.

Table 1

<u>Revenue</u>	<u>Fiscal Year</u>		
	<u>1972-73</u>	<u>1967-68</u>	<u>1963-64</u>
Admissions	\$ 496,000	\$ 585,000	\$ 643,000
Parimutuel wagering	699,000	664,000	587,000
Concessions and commercial	435,000	647,000	462,000
Parking	111,000	64,000	51,000
Interim use	188,000	114,000	79,000
Exhibit fees	<u>11,000</u>	<u>28,000</u>	<u>45,000</u>
Total	<u>\$1,940,000</u>	<u>\$2,102,000</u>	<u>\$1,867,000</u>

Finding

THE REVENUE DERIVED FROM OPERATIONS AT CAL-EXPO IS LESS
THAN THAT REALIZED AT THE OLD FAIR SITE.

The total revenue for 1967-68, the last year of operations at the old fair site, had increased by 13 percent in four years. Reductions

in admission and exhibit fees were more than offset by the following increases: parimutuel wagering up 13 percent, concessions and commercial up 40 percent, parking up 26 percent, and interim use up 44 percent.

Revenues for 1972-73 are eight percent below that realized during 1967-68, the final year at the old site. Income from parimutuel wagering, parking and interim use have continued to increase, being five percent, 73 percent and 65 percent, respectively, above the last year at the old site. Both admissions and exhibit fees continued to decrease, being 15 percent and 61 percent, respectively, below the last year at the old site. The net effect of the three increases and two decreases was an increase of \$50,000. This increase was offset by the one-third reduction, or \$212,000, in concession and commercial revenue.

ADMISSIONS

One of the problems identified in the studies which supported development of the new facility was the high percentage of free admissions at the old site. Both the number of paid admissions and percentage of total attendance that were paid increased during the first fair at Cal-Expo. However, since then both have decreased. During the last two years, the attendance has consisted of almost equal numbers of free and paid admissions. Approximately 60 percent of county and district agricultural fair attendance is paid admissions.

Finding

ALLOWING A HIGH PERCENTAGE OF VISITORS TO BE
ADMITTED FREE IS NOT FINANCIALLY SOUND BECAUSE
OF THE LOW AMOUNT OF REVENUE REALIZED FROM
INTERNAL ACTIVITIES.

The daily news media reporting of the prior day's and accumulative attendance compared to the prior year's attendance directs attention to total attendance. An admission policy which results in 20 percent more free admissions than the average of all of the local fairs could be justified if the revenue realized from internal activities was near or above the average of other fairs. The loss in admission revenue would be offset by the other revenues realized from individuals who would not attend if charged an admission. However, this is not true for the State Fair. The concession

and commercial revenue has decreased from \$647,000 during the last year at the old site to \$435,000 during 1972-73. This decrease results from the provisions of the long-term lease contracts for amusements and for the food and beverage concessions.

The amusement rental is based on a percentage of gross receipts with a minimum annual payment of \$230,000. Only the minimum payments have been made. Therefore, the state realizes nothing from the amusement expenditures by visitors admitted free. The high number of free admissions is beneficial to the amusement operator, but only serves to reduce the state admission revenue.

The rental rate of the exclusive food and beverage concession contract is 15 percent of gross receipts with one-half retained by the lessee to repay him for capital improvement expenditures. Therefore, in order for the state to be able to offset for a \$1 loss of an adult admission, a visitor admitted free would have to have spent \$13.34 ($\$1 \div 7.5\%$) for food and beverage. Assuming the state receives full value from the concessionaire's capital improvements, the expenditures per free visitor would have to be \$6.67 to offset for the admission revenue loss. According to the food and beverage concessioner's records, the average expenditures per fair visitor in 1972 was 94¢. The following computation indicates that one paid admission produces approximately the same amount of revenue as five free admissions.

	<u>Revenue Realized by State</u>	
	<u>Five Free Adult Admissions</u>	<u>One Paid Adult Admission</u>
Admission	none	\$1.00
Parking (average of \$0.12 per visitor)	\$0.60	0.12
Amusements	none	none
Food, beverage and novelties:		
15% of 5 X \$0.94	0.70	
15% of 1 X \$0.94	<u> </u>	<u>0.14</u>
Total	<u>\$1.30</u>	<u>\$1.26</u>

Only if less than 20 percent of the free admissions would attend the fair if they were required to pay for admittance is it financially sound to allow a higher than normal percentage of visitors to be admitted free.

The adult fair admission has been \$1, and the racing admission \$1.50. Fair visitors are admitted to the track for 50¢. It is proposed to increase the fair admission by 50¢ while making no change in the racing admission. In addition to generating more revenue, a small savings would be realized by eliminating the additional admission collection facilities for fair visitors to the track.

The effect of increasing the admission price is to increase the state loss resulting from free admissions. The following computation indicates that one paid admission at the proposed increase in admission price would produce almost the same amount of revenue as seven free admissions.

	<u>Revenue Realized by State</u>	
	<u>Seven Free Adult Admissions</u>	<u>One Paid Adult Admission</u>
Admission	none	\$1.50
Parking (\$0.12 per visitor)	\$0.84	0.12
Amusements	none	none
Food, beverage and novelties:		
15% of 7 X \$0.94	0.99	
15% of 1 X \$0.94	—	<u>0.14</u>
Total	<u>\$1.83</u>	<u>\$1.76</u>

Last year a limited number of advance ticket sales were made by church and school groups, which retained either 25 or 50 percent of their gross receipts. A substantial expansion of this program is planned. Ticket sales for which less than the full price is received by the State have the same financial effect, but to a lesser degree as free admissions. The advance ticket sales program provides a financial benefit, if a high percentage of the purchasers of the advance tickets would not otherwise attend the fair. However, a loss results (1) if more than 80 percent of the purchasers of tickets sold by groups which retain 25 percent of their gross receipts, or (2) if more than 60 percent of the purchasers of tickets sold by groups which retain 50 percent of their gross receipts, would attend the fair if they had not purchased an advance ticket.

It is not possible to determine the proportions of free admissions and advance ticket purchasers who would have attended if they were regular admissions. However, local fairs receive substantially less general support

HORSERACING

Following is a comparison of the racing operations for the last two years:

	<u>1972</u>	<u>1971</u>	<u>Increase (Decrease)</u>
Attendance	107,436	98,140	9,296
Total amount wagered	\$6,112,773	\$6,765,137	\$(652,264)
Meet sponsor's share of wagers	699,504	734,096	(34,592)
Admission revenue	135,277	138,211	(2,934)

Attendance

Following are the reasons that the admissions revenue decreased while total attendance increased:

- The small increases in general grandstand admissions and box seat sales were exceeded by larger reductions in reserved seat and season box seat sales.
- Approximately two-thirds of attendance increase were free admissions of horse owners, trainers, etc. If an individual having a pass enters and leaves three times during a day, three admissions are counted.

Total Amount Wagered

Analysis of wagering information provides no insight as to the reasons for the almost 10 percent reduction in total amount wagered. Except for the one-third decrease in the daily double ticket sales, decreases in all of the various types of tickets were close to the total percentage reduction from 1971. The substantial reduction in daily double ticket sales was in part offset by an increase in sales of exacta tickets, which like daily double wagers, pay a substantially higher return on winning tickets than regular win, place or show tickets.

The distribution of the total amount wagered among the three types of races, thoroughbred, quarter horses and appaloosa, did not change significantly from the prior year. The distribution of the total wagers among win, place and show bets, also, did not change significantly. However, there was a significant change in the locations where wagers were placed. The total amounts of wagers placed on the mezzanine and terrace did not change significantly from 1971, while almost all of the decrease was in the wagers placed at the main floor. The per capita amount wagered decreased from \$68.93 in 1971 to \$56.90 in 1972.

Meet Sponsor's Share of Total Wagers

The total amount wagered decreased by almost 10 percent, while the meet sponsor's share (State Fair income) decreased by only 5 percent. Chapter 1759, Statutes of 1971, increased the meet sponsor's share from 9.75 percent to 10.25 percent for parimutuel pools handling less than \$20 million. This change increased the State Fair income by \$30,564.

Operating Results

Table 2 is a summary of State Fair horseracing operations for the last three years.

Table 2

	<u>1972</u>	<u>1971</u>	<u>1970</u>
	(In thousands of dollars)		
Meet sponsor's share of parimutuel pool	\$700	\$734	\$ 864
Admissions	<u>135</u>	<u>139</u>	<u>178</u>
Total Revenue	<u>\$835</u>	<u>\$873</u>	<u>\$1,042</u>
Purses	385	399	373
Other direct costs	<u>379</u>	<u>365</u>	<u>436</u>
Total Direct Costs	<u>\$764</u>	<u>\$764</u>	<u>\$ 809</u>
Net Income	<u>\$ 71</u>	<u>\$109</u>	<u>\$ 233</u>

Finding

MAJOR COST ITEMS ARE OMITTED IN THE ACCOUNTING
FOR HORSERACING OPERATIONS.

Interest, depreciation and administrative expenses are omitted from the costs in Table 2. It is probable that an operating deficit would be shown if an equitable proportion of these costs were allocated to the racing operations. The inclusion of all costs would enable comparison of operations to other racing facilities, which would enable objective evaluation of operations.

- The state license fee is reduced from 6.1 percent to 5.5 percent for five years.

In addition to these provisions, Section 19545 permits the retention of the entire amount of the "breakage" which is the odd cents by which the amount payable on each dollar wagered exceeds a multiple of five cents.

In order to provide criteria to evaluate the amount of purses and fees paid in 1972, we made two comparisons. First, the amount of purses were computed on the basis specified in the Business and Professions Code. The dollar value of the special provisions for smaller operations was determined and added to the computed purses. This computation assigned none of the value of the special benefits to the State Fair; rather, all benefits were assigned to the horsemen.

Table 3 is the computation of purses and special benefits for small operations which are specified in the Business and Professions Code.

Table 3

	<u>Total Wager</u>	<u>Percentage</u>	<u>Amount</u>
Purse computation (Business and Professions Code Sections 19611 and 19612)			
Thoroughbred	\$5,423,934	4.16	\$225,636
Quarterhorse	475,730	3.91	18,601
Appaloosa	213,109	3.91	<u>8,333</u>
Total Purse			252,570
Breakage (Section 19491 of Business and Professions Code)			
Thoroughbred - 44 percent			13,733
Quarterhorse - 41 percent			1,235
Appaloosa - 41 percent			940
Special benefits:			
Breakage (Section 19545 of B and P Code)			36,428
Reduction in License Fee (Section 19614 of B and P Code) 0.6% of \$6,112,773			36,676
Reduction in Return to Wagerers (Section 19641 B and P Code) 0.2% of \$5,423,934			<u>10,848</u>
Total purse and special benefits			<u>\$352,430</u>

Actual purses and fees paid in 1972 were \$389,407. The elimination of overpayments and underpayments, which are carried forward into the subsequent year's computations, results in amount relative only to 1972 racing being \$385,318. The difference between this amount and the above computation of purses which assigns all of the special benefits to the horsemen is \$32,888.

The second comparison was made to the trotting meet operations at Cal-Expo. This comparison evidences that not all of the special benefits are assigned by others exclusively to the horsemen. During 1972, the meet sponsor's share of the total wager at the trotting meet was \$24,000 larger than for State Fair racing; however, State Fair purses were \$70,000 larger than at the trotting meet.

Larger purses are paid for thoroughbred races than for other races. The purse percentages specified in Business and Professions Code, Section 19611, for thoroughbred races average 6.3 percent above the percentages in Section 19612 for other races. Approximately 90 percent of the State Fair purses paid are for thoroughbred races. Therefore, State Fair thoroughbred purses should be approximately six percent above the trotting meet purses for the same amount of total wager. The 1972 actual purses paid were \$384,472 while the purses would have been \$303,255 if computed on the same basis as the trotting meet. The State Fair purses would have been \$81,000 less than the amount paid. If the purses had been \$81,000 less, there would have been almost an equal sharing between the horsemen and the State Fair of the special benefits provided for the small operators.

The objective of paying high purses is to attract a better quality of horses and thereby provide more exciting races. Whether or not more exciting racing than would be provided if the racetrack was owned and operated for profit is a policy decision. The resolution of this policy issue would be facilitated by financial reporting which includes all the cost of operations. In addition, organizational separation of racetrack operations from other fair activities could improve management controls.

The following two alternatives are available:

- Budget and Accounting Improvements - The adoption of a basis to account for depreciation and to allocate administrative and interest costs to horseracing would provide for complete financial disclosure of horseracing operations and also budgetary segregation from other fair activities.
- Organizational Segregation - Historically, horseracing has been a major fair activity. However, the assistance in achieving the primary Cal-Expo objective of promoting the heritage, culture, industry, people and resources of the State, which can be provided by racing, is financial rather than furtherance of objective realization by its mere continuation. Therefore, the organizational separation of the racing operation in a nonprofit corporation would enable the responsible management to function, as it does for all privately operated tracks, with a clear understanding of its objective and the basis upon which it will be evaluated.

CONCESSIONS AND COMMERCIAL

As shown on Table 1, page 5, overall revenue decreased from \$2,102,000 to \$1,940,000, a decrease of \$162,000, between the 1967-68 and 1972-73 fiscal years. The largest reduction was \$212,000 in concession and commercial revenue, which decreased from \$647,000 to \$435,000, a decrease of one-third.

Finding

THE PROVISIONS OF THE LONG-TERM AMUSEMENT AND
FOOD AND BEVERAGE CONTRACTS ARE THE PRIMARY
CAUSE OF THE REVENUE DECREASE.

The principal cause of the one-third decrease in concession and commercial revenue is the provisions of the 20-year exclusive food and beverage concession contract and the 21-year exclusive amusement park contract. Both of these contracts require the concessionnaires to make substantial capital investments. The approximately \$3 million cost of these capital improvements can only be recovered by the lessees through lower lease payments over the contract life. The difference between the smaller amounts received under these contracts and the probable amounts that would be realized under annual contracts not requiring capital investments represent the cost to the State of (1) the improvements, (2) interest on the capital expenditures, (3) added risk because of the investment requirements and long-time period of the contracts, and (4) a possible reduction in competition because a major part of the fair industry was excluded by the investment requirements.

It is not practical to allocate the difference between actual receipts and probable receipts under usual fair contract arrangements among the above four items. However, the last three items may be evaluated collectively if the amortization of the capital investments made by the concessionnaires is accounted for as cash received by the State under the lease contracts.

The following two types of comparisons were made by us:

1. The amount of revenue realized per fair visitor for other major fairs was compared to the State Fair per capita revenue. This comparison was projected assuming no change in fair attendance.
2. The percentages specified in other major fair concession contracts, which are applied to the concessionnaires' gross receipts to determine rental payments, were applied to the reported gross receipts of the State Fair concessions. These projections were made assuming no change in gross receipts.

These comparisons revealed the following:

- Projection over 20 years of the difference between the per capita income of the State Fair and the agricultural district fair at Fresno indicates a probable loss of State revenues of between \$5 million and \$5.6 million, in addition to the \$3 million reduction to enable the concessionnaires to recover their capital investments.

- Projection over 20 years of the difference between the percentages used to establish lease payments in the State Fair and a number of local fair lease contracts indicates a probable loss in State revenue of between \$3 million and \$7 million, in addition to the \$3 million reduction for capital outlay recovery.

Finding

THE LONG-TERM CONTRACTS RESTRICT THE OPPORTUNITIES TO
IMPROVE OPERATIONS AND CAUSE ADMINISTRATIVE PROBLEMS.

In addition to the loss of revenue, these contracts materially reduce the opportunity for future development of the Cal-Expo facility. The exclusive food and beverage contract involves the entire property so that all development, both public and private, is affected by the contractor. For spectator sport and commercial entertainment operations, the ancillary food and beverage revenues are usually a significant financial factor so that the relative attractiveness of a proposal is influenced by the arrangements that can be made with the present contractor. The food and beverage contract includes racing programs.

During the trotting meeting the State realizes 15 percent of the program sales proceeds. One half, or 7-1/2 percent, is received by the State in cash; the other half is retained by the food and beverage contractor as repayment for capital additions that he has made. Under the lease with the trotting sponsor, for which the State realizes very little revenue, the State has agreed to pay him 11.25 percent of these sales. Thus, instead

of realizing any cash revenue, the State actually ends up paying out cash in the net amount of 3-3/4 percent of the program sales.

The amusement contract has caused a number of problems. Payment has not been received from the contractor for the percentage of the gross receipts from the boat ride, utility cost proration and materials and services provided, all relative to the 1971 fair. Neither financial statements nor gross receipts records have been received as required by the lease agreement. Bonds required on construction were not provided and improvements were not all completed in the time specified. Information has not been supplied to enable determination that there has been compliance with the capital improvement requirement. Problems have included trailer location, employee safety, sub-concessionnaire leaving before fair's end, complaints of the Sacramento County Department of Public Health and publicity.

OPERATIONS

During the 1972-73 fiscal year, less than one-half of the costs of operations of Cal-Expo were paid by users of the facilities. The 1973-74 budget indicates a probable further growth in the disparity between the cost of operations and the revenue derived therefrom. No progress has been made in resolving the question whether or not the Cal-Expo plan or a modification thereof should be implemented.

Finding

BOTH STATE FAIR OPERATIONS AND THE ABILITY OF THE STATE TO RESOLVE THE CAL-EXPO DEVELOPMENT QUESTION ARE ADVERSELY AFFECTED BY A LACK OF STATED OBTAINABLE OBJECTIVES.

The following comparison of the State Fair and the Cal-Expo trotting operations evidences that the latter operations has a definite obtainable objective while the State Fair does not.

- During 1971, the first year of trotting operations, there was a loss from operations, and hence a sharing of total operating costs between those who attended the races and the trotting meet sponsors. During the second year of trotting races, there was also a loss, and hence a sharing of costs. However, owners paid a smaller share of the total operating costs

than during the first year. If the sharing of cost will be continued this year is not yet known; however, the management is fully aware that the sharing of costs is contrary to the primary objective and that in order for operations to be continued, the amounts paid by those attending will have to at least be equal to total costs. No statement of objectives is necessary to convey this message.

- The State Fair will probably be continued whether or not total operating costs are paid by visitors, even though a major objective is self-supporting operations. Both the present fair management and its two predecessors have been provided only the resources necessary for the annual fair. Support for investment in the new facility was generated by studies which concluded that self-supporting operations would result. Little more than the facilities necessary to continue the traditional fair activities were completed, with the consequences that the practicality of self-supporting operations is as doubtful now as it was before the new facilities were constructed. With the present facilities, operations at the new site have no greater potential for self-supporting operations than they were at the old site. The annual budget narrative continues to describe self-supporting operations as a major Cal-Expo objective, but the funding provides for only the traditional activities during a limited fair period.

- In that the impact of these items was not identified either before or after the organizational change, apparently the only reason for the change in priorities was the organizational change.

There is little or no relation between the items comprising the augmentation. Table 4 which summarizes these items has the appearance of a "shopping list" rather than the components of a plan to accomplish an objective.

Table 4

<u>Description</u>	<u>Amount</u>
Replace parking lots lights and expand electrical transformers	\$ 75,000
Permanent restrooms, movable stage, renovate seating and additional electrical service in rodeo area	90,000
Construct waterfall and improve lighting in floriculture area	62,000
Renovate dormitory	13,500
Landscape track infield	25,000
Install ceiling in two buildings	180,000
Construct security fence	7,000
Acquire portable rented box stalls	15,000
Additional maintenance	91,751
Planning	60,000
Replace racetrack tractor	16,000
Provide home economics premiums, free entertainment, greater emphasis on Maid of California program and make minor improvements in exhibit areas	81,540
Increase promotion and public relations	<u>41,200</u>
Total	<u>\$757,991</u>

This list may represent the best possible use of these funds. However, the circumstances under which the augmentation was proposed indicates that the objectives for operations and development have not been refined to the point of serving as the basis to direct and monitor operations.

Finding

THE METHOD OF OPERATION DOES NOT FACILITATE THE
RESOLUTION OF THE QUESTION REGARDING THE FUTURE
OF CAL-EXPO.

The following comparison of the State Fair and the Cal-Expo trotting operations evidences that the continuation of the present method of operations will determine whether the trotting meets will continue, but will not serve to resolve the future of the state operations.

- The contract with Capitol Trotting Association, Limited, requires the installation of track lighting by the association. Like the Cal-Expo development, the cost of this lighting was higher than anticipated. However, unlike Cal-Expo which was completed to the point that original capital outlay funds were exhausted, the entire lighting system was installed. There is a limit on the amount of investment capital available which will be applied to determining the economic soundness of continuing an annual trotting meet in Sacramento. Regardless of the proportion of the total investment funds used for capital improvements or used to defray deficit operations,

the meets will be continued only if the investment capital is not exhausted before break-even or profitable operations occur.

- The decision to forego the completion of Cal-Expo was not based on subsequent study which indicated the original planning was in error. Rather, actual construction costs were greater than anticipated with the facilities completed almost enabling the continuation of the traditional fair. This provided the reason to apply so-called "pay-as-you-go" financing with private capital for the uncompleted facilities. However, the long-term contracts, which enabled completion of the food and beverage concession facilities and one permanent ride, result in:

- (1) Reduced revenue to the State.
- (2) Increased need for State support.
- (3) Lessened attractiveness for any additional private capital investment.

The future of the trotting race meet is primarily dependent on the question of whether the investment capital is sufficient to sustain unprofitable operations until change occurs. The answer will be provided by the financial results of current and future operations.

The following description evidences that State Fair operations do not aid in resolving the question of Cal-Expo's future.

Below are quoted the first two statements of program objectives from the 1973-74 Governor's Budget:

- "1. To provide an attraction including educational features which will interest investment by private enterprise and create an attendance pattern which will eventually reduce the necessity for state subsidy.
2. To provide nationwide and worldwide advertising for the products, the beauties and the recreational facilities of the State of California in cooperation with local and statewide agencies."

In order to reduce the amount of State subsidy, there must be a significant increase in the number of Cal-Expo users. In order to provide nationwide and worldwide advertising for the products, beauties and recreational facilities of the State, it would be necessary to significantly increase usage by other than local residents. A sample of seven percent of the 1971 State Fair visitors indicated the following percentage distribution of residence:

<u>Residence of Fair Visitor</u>	<u>Percentage</u>
Sacramento County	61
Seven Counties within 60 miles	12
Seven Bay Area Counties	18
Other Counties	8
Out of State	1

This distribution by location of residence indicates there is little nationwide or worldwide advertising being realized by present State Fair operations. Whether Cal-Expo can become the exposition it was planned and constructed to be is dependent upon whether there is an attraction which has an appeal for other than local residents. This is evident from the following testimony of Mr. Tom Bair, the prior General Manager at the January 4, 1973 hearing of the Assembly Committee on Efficiency and Cost Control. The following is an explanation of the plan to reduce the number of days of fair operations.

"We feel very badly about the last two days of this year's fair. We have a program; it's a good fair, but everybody has seen it by then and all ... "

"Strange thing, but the fact is, Mr. Wilson, there is no reason to believe that if we ran fifteen days or sixteen days or seventeen days, we would not have less revenue than if we ran twenty days, just the extra expense. You advertise, publicize the fair is going to be such and such a duration, and you usually get the same number of people. This has been borne out."

Finding

LACK OF INFORMATION REGARDING FAIR VISITORS IMPEDES
PLANNING AND THE EVALUATION OF OPERATIONS.

The sampling of fair visitors was not repeated in 1972. If the higher attendance reflects the same distribution by county of residence, as in 1971 a different distribution is unknown. The Cal-Expo dilemma is (1) the completion of the facility to the point of duplicating the old

facility does not attract enough people to justify operations beyond the traditional fair period of time, (2) while continued deficit operations do not support making the capital investments necessary to expand operations beyond the traditional period.

Three basic options regarding future development are available. These are: (1) no more development, (2) completion of facilities similar to that originally planned, or (3) stage development with decisions predicated upon the operational changes resulting from the completed step. The monorail is to be in operation again during the 1973 fair. Cal-Expo management anticipates this will not only provide additional revenue, but will also increase attendance. It is not practical to determine the extent to which a single major attraction, such as the monorail, causes any attendance increase. In addition, the place of residence of users of recreational facilities usually is not significant enough to warrant study.

For the State Fair, changes in the composition of the visitors population is not obvious. Last year's paid attendance increase of approximately 23,000 would have to be repeated for the next seven years before paid attendance would equal that of the first year's operation at Cal-Expo. If this increase does occur, but at the same time an increase in attendance by non-local residents is being offset by a reduction in attendance by local residents, development planning will be based on erroneous data. If last year's increase is repeated primarily by local residents, support is provided for the policy decision of the last five years to retain Cal-Expo as little

more than the old State Fair housed in new structures. If the increase is primarily made up of non-local residents, consideration could be given to completing another step towards the original Cal-Expo plan.

Accounting for Operations

Operations for 1973-74 are anticipated to be 12 percent greater than 1972-73. Appendix A reflects the estimated source and application of funds for these two years. During both years, the revenue derived from operations represents a little less than one-half of the cost of operations. The principal factors contributing to the anticipated 17 percent increase in operating revenues are: (1) the increase in adult admission price from \$1 to \$1.50, (2) the resumption of monorail operations, and (3) an increase in commercial exhibitions.

Prior to the augmentation of the printed Governor's Budget, major savings were anticipated in both general and operating expenses. These savings were more than offset by the augmentation which is described on Table 4 on page 27.

Finding

THE EVALUATION OF OPERATIONS IS IMPEDED BECAUSE ALL
OPERATING COSTS ARE NOT CHARGED TO THE MAJOR FAIR
ACTIVITIES.

The results of the five years of operations of the Cal-Expo facility indicate that substantial amounts of support will probably be required until additional development enables more than traditional fair activities.

The support of educational, cultural and traditional fair activities is probably less objectionable than usage of general revenues to offset deficit operations in commercial revenue producing activities. The accounting system does not relate costs to the various fair operations.

While some costs are identified by major activities, total costs are accumulated only on the same basis as budget authorization; that is, by traditional governmental objects of expenditure, such as personal services, general expense, printing and travel. Fiscal control is established by accounting costs on the same basis as expenditure authorizations. However, in order to evaluate the various activities, the total costs, either by direct charge or allocation, should be related to the major separate attractions.



Walter J. Quinn
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July 23, 1973

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California State Exposition and Fair
Estimated Source and Application of Funds
1973-74 and 1972-73

<u>SOURCE OF FUNDS</u>	<u>Projected 1973-74</u>	<u>Estimated 1972-73</u>	<u>Increase (Decrease)</u>
State Appropriations:			
General Fund:			
Support Appropriation	\$ 250,000	\$ 595,759	(\$345,759)
Bond interest appropriation	1,130,000	1,130,000	-
Augmentation	<u>502,991</u>	<u>-</u>	<u>502,991</u>
Total General Fund	<u>1,882,991</u>	<u>1,725,759</u>	<u>157,232</u>
State Fair Fund:			
Statutory	265,000	265,000	-
Deficiency	-	210,854	(210,854)
Capital Outlay	<u>255,000</u>	<u>-</u>	<u>255,000</u>
Total State Fair Fund	<u>520,000</u>	<u>475,854</u>	<u>44,146</u>
Total State Appropriations	<u>2,402,991</u>	<u>2,201,613</u>	<u>201,378</u>
Revenues from Operations:			
Admissions	<u>628,822</u>	<u>495,933</u>	<u>132,889</u>
Parimutuel wagering	<u>720,000</u>	<u>699,470</u>	<u>20,530</u>
Parking	<u>116,000</u>	<u>111,315</u>	<u>4,685</u>
Concessions and commercial:			
Exclusive food and beverage concession	65,800	65,800	-
Amusement park concession	230,400	230,400	-
Monorail	110,000	-	110,000
Other concessions	25,700	25,700	-
Commercial	155,100	113,100	42,000
Other - unclassified	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total concessions and commercial	<u>592,000</u>	<u>435,000</u>	<u>157,000</u>
Exhibit entry fees and miscellaneous	<u>15,500</u>	<u>11,000</u>	<u>4,500</u>
Interim building rents	<u>197,617</u>	<u>188,000</u>	<u>9,617</u>
Total Operating Revenues	<u>2,269,939</u>	<u>1,940,718</u>	<u>329,221</u>
Reimbursements	<u>90,350</u>	<u>94,000</u>	<u>(3,650)</u>
TOTAL - SOURCE OF FUNDS	<u>\$4,763,280</u>	<u>\$4,236,331</u>	<u>\$526,949</u>
<u>APPLICATION OF FUNDS</u>			
Support of California Exposition and Fair Committee	\$3,378,280	\$3,106,331	\$271,949
Capital Outlay	255,000	-	255,000
Bond Interest and Redemption	<u>1,130,000</u>	<u>1,130,000</u>	<u>-</u>
TOTAL - APPLICATION OF FUNDS	<u>\$4,763,280</u>	<u>\$4,236,331</u>	<u>\$526,949</u>